

## Why Choose the TPP?

-A Consideration of the Issues from the Perspective of the System of International Trade-

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### What form will trade negotiations take in the 21<sup>st</sup> century?

The second half of the 20<sup>th</sup> century saw profound growth in the world economy as a result of the liberalization of trade. At the center of this process were the General Agreement on Tariffs and Trade (GATT) and its successor, the World Trade Organization (WTO).

The WTO is an excellent system. Its great strength is its multilateral framework, incorporating most of the world's nations. The most-favored nation principle, which demands non-discriminatory treatment from all member nations, has played a significant role in extending the benefits of trade liberalization negotiations to the entire world. Under the WTO system, the tariff rates of advanced manufacturing nations have dropped to extremely low levels. Emerging nations have also opened their markets in order to realize economic growth.

However, with the advent of the 21<sup>st</sup> century, the limits of the WTO's functions have become increasingly apparent. The Doha Round, marked by conflict between the opinions of developed and emerging nations and the subsequent stalling of negotiations, stands as a symbol of these limits. With more nations participating and more comprehensive liberalization being pursued, it is unavoidable that negotiations will face difficulties.

This is not to imply, of course, that the WTO has declined in importance. WTO rules have made it impossible for nations to implement self-serving trade policies. WTO rules forbid the illicit raising of tariffs and the restriction of trade by illegal methods. Most nations respect these rules. In addition, when trade issues result in bilateral conflicts, the WTO plays the role of arbitrator. This conflict arbitration function seems to be becoming increasingly important.

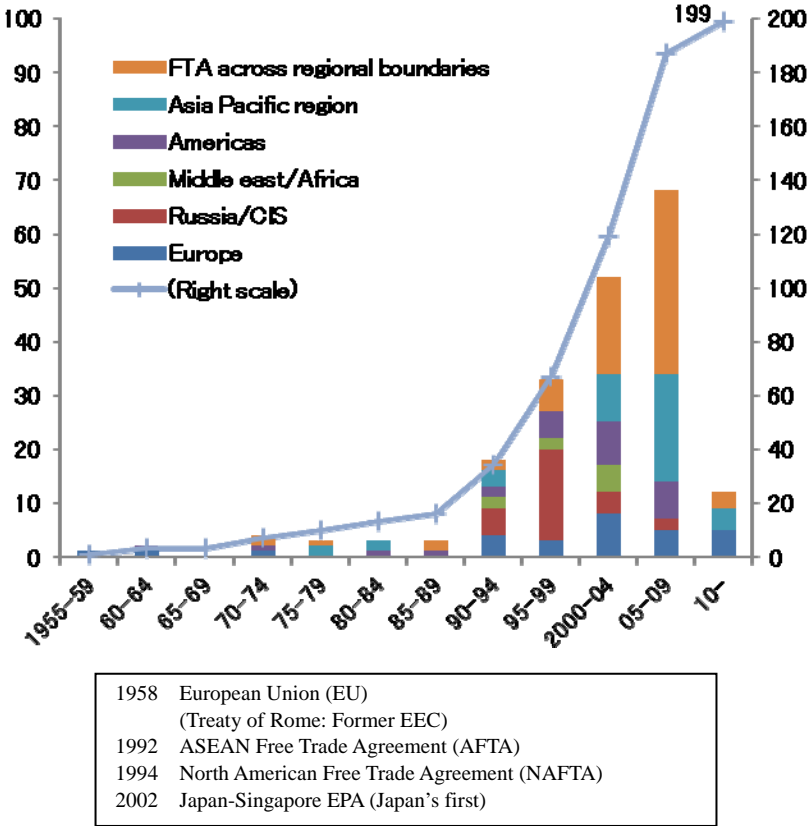
It goes without saying that Japan should support the WTO. It will also be essential to step up efforts in the Doha Round, which as indicated currently faces difficulties, in order to reach consensus. But it is clear that the fate of the future world trade system cannot be entrusted to the WTO alone. We need a mechanism to complement the WTO.

The successive conclusion of free trade agreements (FTA) and economic partnership agreements (EPA) across the globe over the past 20 years forms the background to these changes (Figure 1). The advantage of these agreements is that they enable neighboring nations with strong economic relationships to progress rapidly in liberalizing trade. In addition, such arrangements have promised to enable the realization of deeper integration by expanding negotiations to incorporate more extensive liberalization and the

coordination of domestic systems rather than merely liberalizing border measures through the scrapping of tariffs. Using a rather rough formulation, we might say that the WTO is a system which excels in realizing a broad but shallow liberalization between large numbers of nations, while FTA and EPA excel in the realization of narrow but deep liberalization between specific nations and regions.

**Figure 1 Number of global FTA/EPA**

**The number of FTA/EPA going into effect increased rapidly from the 1990s onwards.**



(Note) As of June 1, 2011.  
 (Source) Formulated based on the 2011 JETRO Global trade and Investment Report (Original materials sourced from WTO website).

As we proceed into the 21<sup>st</sup> century, nations are being forced to seek deeper integration by mutually pursuing more extensive liberalization. This trend will expand within the WTO framework with regional economic cooperation as the impetus. It is quite possible that the maximal exploitation of the complementarity between the two approaches discussed above (broad but shallow liberalization and narrow but extensive liberalization) will be the defining characteristic of 21<sup>st</sup> century trade liberalization negotiations.

## **What is the background to the TPP?**

Some commentators point to the concern that the advancement of regional economic cooperation will do nothing but increase the degree of connection between specific nations and regions, leading to the formation of economic blocs. However, at present there is no need for this concern.

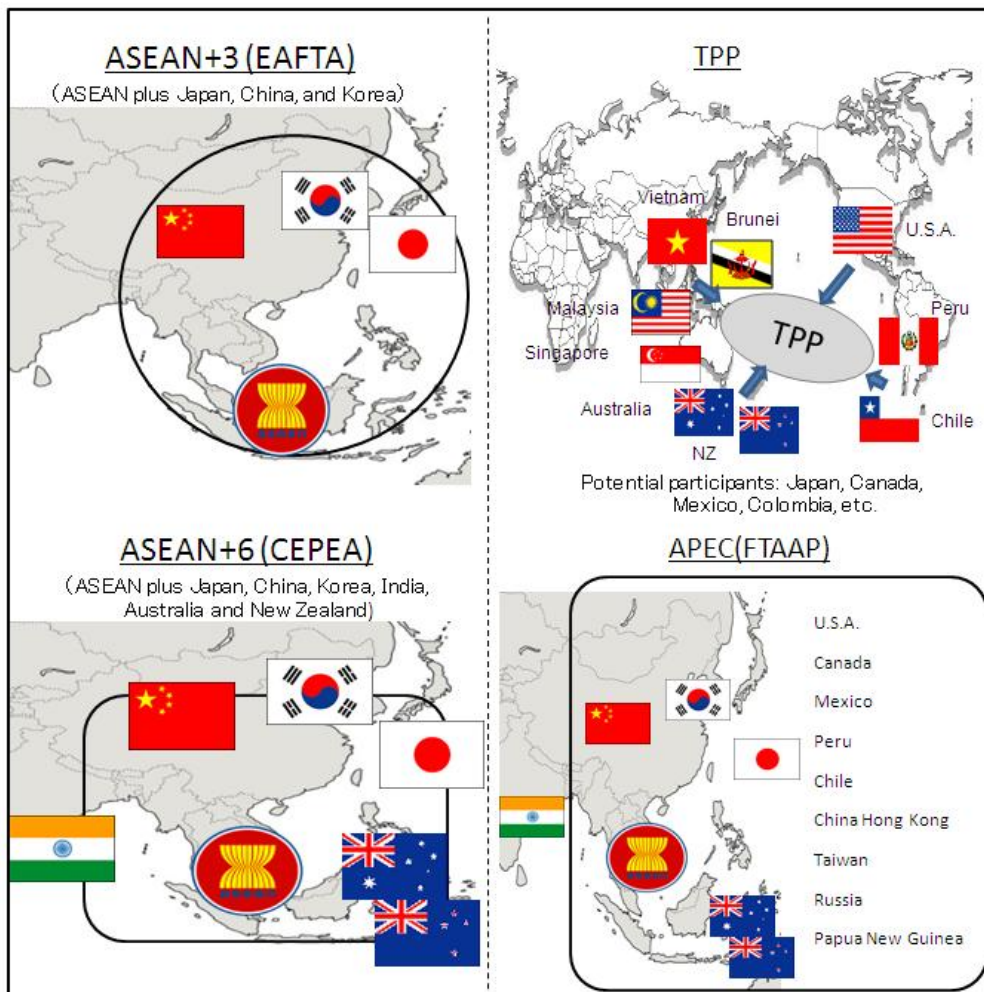
The formation of economic blocs during the global Depression of the 1930s saw specific nations and regions (the U.S., the British bloc, the French bloc, etc.) erecting high tariff barriers and forming mutually exclusive economic zones. Today's developing trend of regional cooperation is clearly entirely different from this process of formation of economic blocs. Under the WTO, tariffs are kept low, and it is not possible to significantly increase tariffs in relation to specific regions, as occurred in the 1930s. In addition, almost 200 FTA and EPA have been concluded between specific countries and regions, and regional economic cooperation is proceeding on the basis of overlapping agreements between nations. These arrangements are not forming bloc economies which will divide regions.

Borrowing the phrasing coined by Colombia University's Jagdish Bhagwati, it is important that arrangements for regional economic cooperation act not as stumbling blocks which impede global liberalization, but rather as building blocks promoting liberalization. Up to the present, the regional economic cooperation arrangements being advanced around the world have functioned as building blocks.

What should attract our attention within this process is the fact that regional economic cooperation is evolving from bilateral agreements to multilateral agreements incorporating more nations (Figure 2). Looking at the Asia-Pacific region, frameworks such as ASEAN plus Japan, China, and Korea and the Trans-Pacific Strategic Economic Partnership Agreement (TPP) exemplify this trend. While neither have yet been realized, it is important that an impetus towards this type of wide-area regional economic cooperation has developed. It is essential that Japan's trade strategy take regional trends of this kind into close consideration.

In relation to the TPP, a former senior U.S. official is said to have commented that the U.S. sought to demonstrate its level of commitment to the Asia-Pacific region through its active involvement in the agreement negotiations. The Asia-Pacific region is becoming increasingly important to the U.S., and this fact is manifested in the nation's initiatives in relation to the TPP. It does not need to be pointed out that the presence of China is the key to the U.S.'s political, economic and security strategies in the Asia-Pacific. The present brief discussion will not take Japan's security situation into consideration, but it can be indicated that the way the TPP should be approached is an extremely important issue for Japan's diplomatic strategy.

**Figure 2 Frameworks for wide-area economic partnership in the Asia-Pacific region**  
**Regional economic cooperation is expanding from bilateral to multilateral agreements.**



(Note) Of the ASEAN member nations, Myanmar, Cambodia and Laos are not members of APEC.

(Source) Formulated based on Ministry of Economy, Trade and Industry materials.

**Intention to participate in the TPP will encourage economic cooperation between Japan, China and Korea**

Amid the discussions as to whether or not Japan should participate in the TPP negotiations, it has been stressed that the nation should push ahead with the realization of an ASEAN plus Japan, China, and Korea agreement rather than the TPP. The logic runs that in the future Japan's trade volume will increase with neighboring countries such as China rather than with the U.S.; participation in the U.S.-led TPP will result in a lack of progress in negotiations between Japan, China, and Korea, and will thus be disadvantageous for Japan.

However, the view that if either the TPP or a China-Japan-Korea agreement is chosen, then the other opportunity will be lost represents a misreading of the actualities of trade policy. As became clear following Japan's announcement that it would participate in TPP negotiations, the nation's signaling of its intentions in this direction boosted the motivation of China and Korea with respect to Japan-China-Korea negotiations.

For more than 10 years, Japan, China, and Korea have sought some path towards the conclusion of an economic partnership agreement. Under the Obuchi Cabinet, at the instruction of the leaders of the three nations, a research project concerning the enhancement of economic cooperation and the realization of an EPA, led by think tanks in each nation, was commenced from 2001. NIRA was responsible for the research on the Japanese side. The fact that a project of this type was continued was of great significance, but unfortunately it did not develop into a fully-fledged research project with the participation of government personnel. Almost 10 years have now passed. We may assume that reasons exist on each side of the Japan-China-Korea triangle to explain the fact that no progress has been made in proceeding to the stage of negotiations. It is possible that Japan's announcement of its intention to participate in the TPP negotiations has effected a significant change in this situation<sup>1</sup>.

### **The chain reaction that occurs in trade negotiations**

No matter what period we might care to examine, a certain type of chain reaction can be seen to occur in trade negotiations. During the Uruguay Round of the GATT negotiations, from the latter half of the 1980s through the first half of the 1990s, conflict between the U.S. and the EU regarding agricultural issues needlessly extended the negotiation period. Taking this situation into consideration, the U.S. acted to conclude the North American Free Trade Agreement (NAFTA) with its neighbors Canada and Mexico. Without relying on the interminably protracted GATT negotiations, the U.S. transferred its attention to regional economic cooperation with neighboring countries involving a considerable volume of trade and investment. This move on the part of the U.S. inspired a sense of crisis in the EU camp (weakening of GATT?), with the result that the two sides eventually reached a compromise, and the Uruguay Round was concluded. In other words, a chain reaction occurred in which the impetus provided by NAFTA pushed ahead the Uruguay Round negotiations.

Japan should proceed with both the TPP and ASEAN plus China, Japan and Korea. In doing so, it would bring the goal of the realization of a free trade zone in the Asia-Pacific region more clearly into focus.

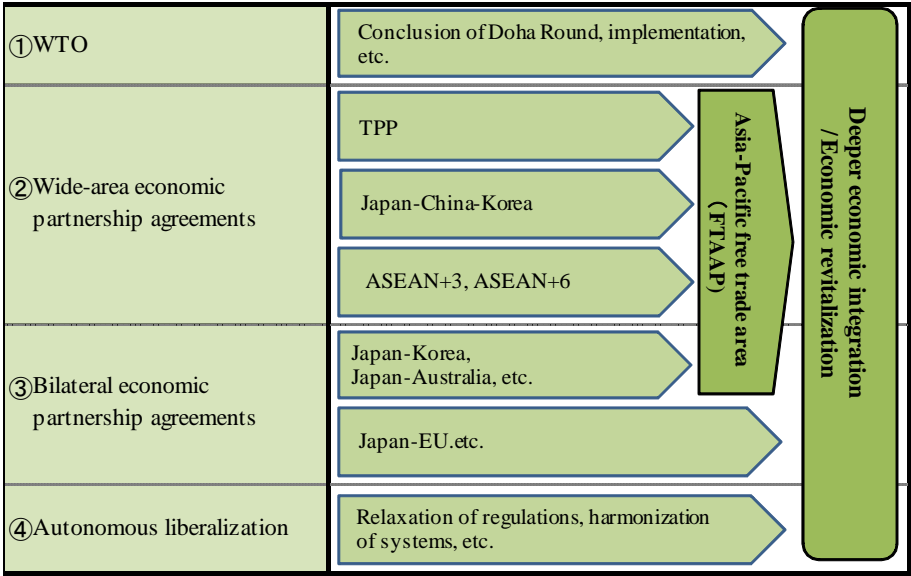
In actuality, it would be most realistic for Japan's trade policy to proceed simultaneously on four levels. These are: 1) Multilateral frameworks such as the WTO; 2) Wide-area Economic Partnership Agreements (TPP and ASEAN plus Japan, China, and Korea, ASEAN+6, adding India, Australia and New Zealand, etc.); 3) Bilateral Economic Partnership Agreements (Japan-Korea, Japan-EU, etc.); and 4) Liberalization implemented unilaterally by Japan. Liberalization at all of these levels is important, and all four should be

exploited strategically. The potential for chain reactions between the four levels should also be given attention (Figure 3).

One government official responsible for trade has commented that Japan’s announcement of its intention to participate in the TPP negotiations resulted in a change in the attitude of the EU. The EU is also presumably able to read the flow of the chain reactions in trade negotiations. It is to be hoped that this situation will provide impetus to economic partnership negotiations between Japan and the EU.

Intense negotiations are in the offing in relation to the TPP. It is possible that the U.S. or another nation will make demands which appear unreasonable to Japan. Proceeding effectively with negotiations of this type will demand a level of flexibility on the part of Japan’s negotiators which enables them to play the Japan-China-Korea card. The same can be said of negotiations with the EU.

**Figure 3 The four levels of trade policy**  
 Proceeding simultaneously in parallel is realistic.



**Japan cannot choose to turn its back on the TPP**

It is necessary to turn the question as to what meaning participation in the TPP negotiations will have for Japan around and to consider how Japan’s involvement will affect the TPP.

It goes without saying that the participation or non-participation of a major economic power like Japan will result in a significant change in the character of the TPP. This is because the TPP will function as a powerful impetus to the development of regional economic cooperation in the Asia-Pacific region. Rather than the creation of a framework for economic cooperation in which the U.S. has the overwhelming share, the participation of Japan in the negotiations as a regional economic power creates the potential for an

expanded framework for cooperation across the Asia-Pacific. Since Japan announced its intention to participate in the negotiations, Canada and Mexico have also announced their desire to participate. The number of nations seeking to participate may even increase in future.

Both the TPP and ASEAN plus Japan, China, and Korea are nothing more than processes towards the formation of larger frameworks for economic cooperation, in these cases taking in the entire Asia-Pacific region. It remains unclear as to whether the TPP will ultimately succeed, but in the background we can discern a significant trend towards the creation of a more comprehensive framework for cooperation in the region. There is absolutely no reason for Japan to isolate itself from this trend. In fact, Japan must be more active in its participation – the nation cannot choose to turn its back on the TPP.

### **Towards an open Japan**

Voices opposing Japan's participation in the TPP are being raised in the agricultural sector and in some corners of the healthcare sector. This stems from the fear that the TPP will result in change to the systems presently in place in Japan. Opponents of market liberalization will always exist, no matter what the specific target. Conflicts of opinion are unavoidable. What is important is that discussions concerning agricultural and healthcare issues are based on accurate data and adequate analysis.

Unfortunately, however, what we have seen thus far in discussions concerning agricultural issues in relation to the TPP is emotional arguments based neither on accurate data nor adequate analysis. As Professor Shinichi Shogenji of Nagoya University's Graduate School of Bioagricultural Sciences pointed out in my discussion with him as part of the NIRA Dialogue Series<sup>2</sup>, the real threat in terms of rice imports to Japan is China. The capacity of the U.S. and Australia, both actual participants in the TPP negotiations, to export rice is restricted by limited water resources and quality issues.

Estimates of the effects of liberalization of rice imports on Japan's rice-growing industry issued by the Ministry of Agriculture, Forestry and Fisheries<sup>3</sup> have provided an important foundation for the arguments of opponents of the nation's participation in the TPP. These estimates assume the possibility of influxes of high volumes of cheap rice from countries including China. Yet even as they brandish these figures, representatives of Japan's agricultural sector urge action towards the realization of economic cooperation between Japan, China, and Korea rather than participation in the TPP. If the issue of rice is important, it is precisely economic cooperation with China that the opponents of the TPP should be concerned about. However, the Ministry figures have not been used to bolster any arguments of this type.

Rather than something which will destroy Japan's agriculture and healthcare industries, the TPP should be considered a means of creating strong agriculture and healthcare sectors which correspond to the interests of Japanese citizens. As is clear to many of those citizens, simply maintaining these industries in their current form will not ensure a positive outlook for the nation's future. For 20 years since the collapse of its economic bubble, Japan has feared change and avoided reform. This has led us to the situation today,

with the nation's sense of impasse increasing. Japan has no path open to it other than to rebuild its agricultural and healthcare sectors in a more desirable form, with market liberalization as the precondition of success.

NIRA itself has conducted research on issues of Japan's food and healthcare industries from a variety of perspectives, and has made policy proposals in these areas. I would like NIRA to continue in its research on these subjects. Issues of food and healthcare are important issues for all citizens. Precisely because of this, rather than entrusting discussions to a limited number of experts, what is essential is a transparent discussion process which has the power to convince the public.

The arguments over Japan's agricultural and healthcare sectors which have been triggered by the TPP provide us with a tremendous opportunity to engage in discussions of the issues at the level of ordinary citizens. In order to flourish as a resource-poor nation, Japan must open itself to other nations. Now is the time to enhance the nation's domestic systems, based on a correct understanding of the realities of the 21<sup>st</sup> century global economy.

## Notes

1. The potential for an FTA between Japan, China and Korea has been under consideration by a Joint Study Committee made up of representatives of industry, academia and government since May 2010. With the issue of Japan's participation in the TPP negotiations, the nations involved rapidly developed proactive attitudes, and a joint declaration urging the commencement of negotiations was issued in December 2011. The possibility of reaching an agreement to commence negotiations at the 2012 Trilateral Summit between the nations is rumored.
2. *TPP mondai to nihon no nogyo* ("The Issue of the TPP and Japan's Agricultural Industry"), NIRA Dialogue Series No. 68 (January 2012) (<http://www.nira.or.jp/pdf/taidan68.pdf>) (In Japanese).
3. *Hokatsuteki keizai renkei ni kansuru shiryō (Norin suisansho no shisan)* ("Documentation concerning Comprehensive Economic Partnership -Estimation") Ministry of Agriculture, Forestry and Fisheries, (October 27, 2011), ([http://www.maff.go.jp/j/kokusai/renkei/fta\\_kanren/sisan.html](http://www.maff.go.jp/j/kokusai/renkei/fta_kanren/sisan.html)) (In Japanese) .

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The National Institute for Research Advancement (NIRA) is an independent, private-sector research institute which defines urgent policy issues and formulates bold and timely policy proposals, seeking to contribute to the revitalization and further development of Japanese society and the Japanese economy.

Utilizing a network of scholars, researchers, and specialists in a wide range of subjects, NIRA works for the public benefit from a fair and neutral perspective, attempting to reinvigorate policy debate and contribute to the process of policy formation in Japan. The institute focuses on domestic social and economic policy, international relations, and regional issues in Japan as its principal areas of research.

Established in 1974 as a government-authorized independent research institution, NIRA became an incorporated foundation in 2007, and since February 2011 has been recognized as a Public Interest Incorporated Foundation.

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